

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03
CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 PA-02 AGRE-00 /122 W
-----057647 100818Z /10

R 091530Z MAY 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6232
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

PASS TREAS AND FRB

E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJ/ SWISS FINANCIAL REVIEW: WEEK OF APRIL 30-MAY 6

1. SUMMARY: FINANCIAL MARKETS WERE QUIET IN SHORT
WEEK WITH MAY 1 AND 5 HOLIDAYS. DOLLAR RATE AGAINST
SWISS FRANC WAS STABLE; GOLD PRICE ROSE SLIGHTLY.
BANKS EXPECT LOWER 1978 EARNINGS; SHORT TERM INTEREST
RATES ROSE SLIGHTLY; INVESTORS ARE HOLDING BACK IN
EXPECTATION OF HIGHER LONG-TERM RATES. BANK FOR
INTL SETTLEMENTS (BIS) REPORTED ABRUPT RISE IN
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FOURTH QUARTER 1977 INTL BANKING ACTIVITY. CAPITAL
INVESTMENTS ROSE IN FIRST QUARTER 1978; HOTEL STAYS
ALSO ROSE. LABOR UNIONS CELEBRATED MAY FIRST; WAGES
ROSE IN 1977. END SUMMARY.

2. FOREX AND GOLD; DOLLAR RATE AGAINST SF ROSE TO
SF 1.96 AT MID-WEEK UNDER INFLUENCE OF US INTEREST

RATE INCREASE AND US STOCK MARKET IMPROVEMENT.
 DEALERS ATTRIBUTED SLIGHT DOLLAR RATE DECLINE FRIDAY
 TO REPORT OF ABRUPT INCREASE IN US WHOLESALE PRICE
 INDEX AND IN US MONEY SUPPLY, PARTLY OFFSET BY
 ANNOUNCED DECLINE IN US UNEMPLOYMENT RATE. HOWEVER,
 PRESS COMMENT WAS OPTIMISTIC THAT APRIL US CPI
 INCREASE WOULD HELP US ADMINISTRATION IMPLEMENT ANTI-
 INFLATION PROGRAM. SOME ECONOMISTS SAID OFFICIAL
 SWISS ECONOMIC GROWTH RATE PROJECTION MIGHT BE TOO
 LOW; EXPECT 3 PCT REAL GROWTH IF EXCHANGE RATES REMAIN
 AT CURRENT LEVELS. GOLD PRICE ROSE SLIGHTLY; DEALERS
 EXPECTED INCREASED DEMAND. RATES FOLLOW:

| | 5/1 (OPEN) | 5/5 (CLOSE) |
|-------------------|------------|-------------|
| SPOT DOLLAR | 1.9470 | 1.9475 |
| FORWARD DISCOUNTS | | |
| (PCT PER ANNUM) | | |
| 1 MONTH | 6.54 | 7.52 |
| 2 MONTHS | 6.48 | 6.87 |
| 3 MONTHS | 6.69 | 6.72 |
| 6 MONTHS | 6.62 | 6.78 |
| 12 MONTHS | 6.11 | 6.24 |
| SF/DM | 93.89 | 93.78 |
| GOLD | 168.75 | 172.50 |

3. CAPTIAL AND MONEY MARKETS:
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A) SWISS STOCK PRICES SLIPPED SLIGHTLY IN
 LIGHT TURNOVER; SKA SHARE INDEX DECLINED TO 239.5.
 BANKERS SAID PRICE DIP ON US STOCK MARKET BROUGHT
 MEMENTARY HALT TO SHIFT FROM SWISS TO US SHARES. US
 STOCKS LISTED FOR TRADING IN ZURICH REGISTERED
 SUSTANTIAL RPICE INCREASES DURING APRIL

B) FIRST QUARTER REPORTS OF BIG BANKS INDICATED
 SLIGHTLY LOWER EARNINGS ARE EXPECTED IN 1978, DUE IN
 LARGE PART TO BAN ON NON-RESIDENT FOREIGN INVESTMENTS
 IN SWITZERLAND. MOST OF INCREASE IN BANK LENDING
 WAS ABROAD; DOMESTIC DEPOSITS ROSE. BANKERS
 QUESTIONED EFFECTIVENESS OF BAN IN RELIEVING UPWARD
 PRESSURE ON SF; SAID SWISS NATL BANK MUST SOON WEIGH
 ADVANTAGES AND DISADVANTAGES. SNB OFFICIALS, HOWEVER,
 STATED THEY DO NOT EIVISAGE EARLY LIFTING. AGEFI
 EDITORIAL EXPRESSED BELIEF CONTINUATION NECESSARY
 THOUGH PAINFUL.

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C) MARKET KUQUIDITY DECLINED SLIGHTLY, CAUSING
UPWARD TREND IN SHORT TERM INTEREST RATES. THREE-
MONTH EURO-FRANC RATE ROSE FROM 0.75 TO ONE PCT.
HOWEVER, GENERAL INTEREST RATE INCREASE IS NOT
EXPECTED BECAUSE OF WEAK DOMESTIC CREDIT DEMAND.
INVESTORS ARE SAID TO BE WAITING FOR HIGHER LONG-
TERM INTEREST RATES. RECENT RENAULT HOLDING LOAN
AT 4.25 PCT INTEREST WAS ISSUED AT 101 PCT OF PAR;
OBLIGATIONS WERE EXPECTED TO SELL AT 101.25 PCT ON
SECONDARY MARKET. OBSERVERS PREDICTED SOME LOAN
EMISSIONS MIGHT FAIL IF SECONDARY MARKET CONDITIONS
BECOME CONSIDERABLY MORE ATTRACTIVE FOR INVESTORS.

4. BANKING: BANK FOR INTL SETTLEMENTS REPORTED
FOREIGN ASSETS OF REPORTING BANKS GREW \$65 BILLION
IN LAST QUARTER 1977 TO REACH TOTAL \$657 BILLION,
LARGEST QUARTERLY INCREASE EVER EPORTED. GROWTH
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REFLECTED RISE IN INTL BANK LOANS, DOLLAR WEAKNESS,
AND END-1977 OPERATIONS. EXCHANGE RATE CHANGES
ACCOUNTED FOR \$15 BILLION OF TOTAL GROWTH. INTL

CREDIT ROSE \$25 BILLION, HOWER THAN IN FOURTH QUARTER 1976 BUT ABOVE AVERAGE IN FIRST THREE QUARTERS 1977.

5. CAPITAL INVESTMENT: NUMVER OF FIRST QUARTER 1978 GOVT-APPROVED PLANS FOR NEW INDUSTRIAL INVESTMENT WAS 456 OR 12 PCT ABOVE FIRST QUARTER 1977; 74.8 PCT OF TOTAL WAS FOR NEW PRODUCTION FACILITIES OR RE-STRUCTURING. NUMBER OF PLANS FORNEW CONSTRUCTION OR EXPANSION WAS UP 45.5 PCT FROM 1977. HOWEVER, ECONOMISTS STILL EXPECT NOMINAL 1978 INDUSTRIAL CONSTRUCTION TO BE SLIGHTLY BELOW 1977 LEVEL AND NEW EQUIPMENT PURCHASES TO BE SAME AS IN 1977. NEW HOUSING UNIT COMLETIONS ROSE 35.8 PCT IN FIRST QUARTER 1978 ON ANNUAL BASIS, NEW BUILDING PERMITS WERE UP 6 PCT.

6. TOURISM: SWISS NATL TOURIST OFFICE (SNT0) REPORTED FIRST QUARTER 1978 OVERNIGHT HOTEL STAYS WERE 11 PCT ABOVE NUMBER REGISTERED IN FIRST QUARTER 1977. SNT0 HOPES TO EQUAL OR SURPASS 70 MILLION OVERNIGHT STAYS RGISTERED IN 1977 IF CURRENT TREND REMAINS STRONG; REQUESTS FOR INFO OON TRAVEL TO SWITZERLAND ARE UP 20 PCT FROM 1977.

7. MAY FIRST: SWISS LABOR UNIONS CELEBRATED MAY FIRST WITH DEMONSTRATIONS AND SPEECHES INS SUPPORT OF LABOR GOALS. SWISS PRES RITSCHARD (SOCIALIST) SAID FIRESTONE CASE SHOWS SOME ELEMENTS STILL FEEL FATE OF WORKERS IS INIMPORTANT AND THAT HARMFUL ASPECTS OF CAPITALISM HAVE NOT BEEN ENTIERELY ELIMINATED. UNCLASSIFIED

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SOME 3,000 PERSONS DEMONSTRATED IN SUPPORT FIRESTONE TIRE PLANT EMPLOYEES AT PRATTELN. LABOR LEADERS IN ZURICH SAID GOVT'S POLICIES ARE ANTI-SOCUAL IN REMOVING FOOD PRICE SUBSIDIES AND SEEKING TO RAISE TAXES; CALLED FOR LABOR SOLIDARITY TO SEEK IMPROVED WAGES AND FRINGE BENEFITS, ELIMINATION OF SEASONAL WORK PERMITS AND BETTER INTEGRATION OF FOREIGN WORKERS. PARLIAMENTARY COMMISSION BEGAN STUDY OF TWO INITIATIVES TO REQUIRE LABOR PARTICIPATION IN PLANT MANAGEMENT. LABOR IN LIECHHENSTEIN CALLED FOR LAW TO ELIMINATE OR LIMIT PRESENCE FOREIGN WORKERS IN THE PRINCIPALITY, ESPECIALLY IN COMPANIES SET UP WITH FOREIGN CAPITAL.

8. INCOMES: GOVT REPORTED AVERAGE 1.9 PCT INCREASE IN HOURLY WAGES IN 1977; MONTHLY SALARIES WERE UP 1.5 PCT. CONSUMERS PRICE INDEX ROSE 1.3 PCT. INCOMES DECLINED SLIGHTLY IN BRANCES FOR CLOTHING

AND SHOES, LEATHER, RUBBER AND PLASTICS, WHOLESALING
AND CLEANING SERVICES. CROWLEY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BERN02193
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780197-1257
Format: TEL
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780580/aaaacqhh.tel
Line Count: 226
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 03a42aa2-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2756306
Secure: OPEN
Status: NATIVE
Subject: / SWISS FINANCIAL REVIEW: WEEK OF APRIL 30-MAY 6
TAGS: EFIN, SZ
To: STATE USMTN MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/03a42aa2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014